



# Lloyds Bank Review



APRIL 1960



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# **LLOYDS BANK LIMITED**

**71 LOMBARD STREET, LONDON, E C.3**

# Lloyds Bank Review

Editor: W. Manning Dacey

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New Series

APRIL, 1960

No. 56

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*The Bank is not necessarily in agreement with the views expressed in articles appearing in this Review. They are published in order to stimulate free discussion and full inquiry.*

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# The Prospects for the Budget 1960 – 1965

*By F. A. Cockfield*

## THE GENERAL BUDGETARY BACKGROUND

**I**N 1951, the year the Conservative Party came back into power, central government taxes accounted for rather more than 31 per cent. of the gross national product. By 1958, the figure had fallen to 26 per cent. When the figures for 1959 are published they are likely to show a further fall as tax rates were reduced sharply in the 1959 Budget, while incomes have increased and are likely to go on increasing.

This eight-year span since 1951 can be divided into two approximately equal periods, each of which included a major foreign exchange crisis. But while in the first period an attempt was made to meet the situation in part by increasing taxation, in the second reliance was placed entirely on monetary measures, including hire purchase controls. The reductions in taxation made in the first period were important: nevertheless the period ended with two Budgets increasing taxation (the October Budget of 1955 and the 1956 Budget) and these have tended to overshadow, perhaps unfairly, the reductions which had been made in the previous years. The second period has been one of continuous reduction in taxation.

The 1955 and 1956 Budgets represented therefore a real watershed, in the sense that they were the last attempt to curb excesses in the economy by fiscal means. When in 1957 we were faced with a foreign exchange crisis of great gravity, the action then taken was in essence entirely monetary. This change in policy is of great importance because, so long as taxation is regarded as a convenient weapon to hand to regulate the economy, the more difficult it is to devise a sensible and satisfactory tax system.

In considering the general principles of budgetary policy there are two different aspects which require consideration. They are first of all the long-term aims and effects of budgetary policy and, secondly, the short-term use of the Budget to control

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economic fluctuations. The failure to distinguish between these two aspects can lead to much confusion. There is no doubt that, long-term, a community can successfully absorb a much higher level of taxation than it was once accustomed to. Thus we are undoubtedly more prosperous today, with 25 per cent. of our national income going in tax, than we were in 1938, when the figure was 17 per cent. But equally an attempt to raise the level too abruptly over too short a time can have very bad results. Thus the 31 per cent. we had reached in 1951 was too high because it represented too sudden a jump (in peace-time terms) from the 17 per cent. of 1938. A level of 31 per cent. in 1951 could be achieved only at the cost of a standard of living for the ordinary consumer little better than it was in 1939, and that he was not willingly prepared to accept. The long-term aim of the Budget ought to be to ensure that neither government expenditure nor taxation rise faster than the economy can absorb without inflation.

The use of the Budget to control short-term fluctuations in the economy is a very different matter. I do not for a moment deny that changes in the level of taxation have important and often immediate effects on the national economy. But unfortunately the effects are often very different from what their sponsors expect or hope. This is particularly true of increases in taxation designed to reduce consumer expenditure, for such increases lead to pressure for higher wages and higher profits, thus merely reinforcing the inflation the tax measures were designed to avoid. There was at one time a tendency to regard balancing the national accounts as essentially a matter of book-keeping: if the four main components in national expenditure—namely consumers' expenditure, capital expenditure, government expenditure and the foreign balance—appeared likely to exceed the national income which would be generated at stable prices, all it was necessary to do was to increase taxes. Usually the chosen victim was the consumer. The consumer, however, proved to be singularly unco-operative and unwilling to toe the line if he could find any avenue of escape. The degree of inflation we saw between 1945 and 1952 was in no small measure a reflection of the excessive level of taxation during those years.

But even if tax changes are tailored to meet what are thought to be the special features of the particular economic circumstances, their success may still be very doubtful. Thus, if excessive pressure on the economy is due to too sudden an upsurge in investment, it may be thought that the right way of curbing this is by increasing taxes on business (either through

the income tax or profits tax or by changes in the initial allowances). But such measures merely reduce the cash flow available to the business, and if funds can be obtained from other sources—by raising new capital, by bank borrowing or by other means—on terms which still make the projects profitable, they will proceed despite the tax changes. An even more intractable problem is that of government expenditure. If the level of government expenditure is too high it is useless trying to balance the economy simply by increasing the taxes on the private sector. To do so leads to further inflation as both the consumer and industry seek to find means of countering the effects of the increased taxes.

Most booms and slumps carry within them the seeds of their own reversal. Government action can never eliminate swings in the economy—it can only reduce their amplitude. There may at times be doubt whether the effect of government action is not to increase the swings, instead of to reduce them. One grave danger of raising taxes in an attempt to damp down an excessive upsurge is that later on, when the danger is over and taxes could and should be reduced, there emerge all sorts of other claimants on the Budget surplus. If the surplus is allowed to be absorbed in increased government expenditure, the final result is an ever-increasing level of taxation exerting a continuous inflationary effect.

While obviously the Budget ought not to run counter to the general lines of the government's economic policy at any particular time, the positive contribution it can make as a weapon of control is very limited. The best way of expressing this, perhaps, is to say that as far as possible the Budget should be a neutral factor. That is, the Budget "above the line" should be balanced and any deficit "below the line" should be restricted to a figure compatible with the level of savings in the economy and the other calls upon these savings for capital development. But if this criterion is adopted, it is important that below the line expenditure should be true capital expenditure and not disguised revenue expenditure. Thus, repayments of post-war credits, although included below the line, are to a large extent revenue and not capital, and the same is true of loans to the nationalized industries in so far as they are required to meet current deficits of those industries.

If the last (1959) Budget is judged in this light it was unbalanced. The tax reliefs then given were too much; or alternatively the level of expenditure covered by the Budget was too high. But whichever view is taken, the 1959 Budget must share a considerable measure of responsibility for the fact that so

soon after emerging from a recession we find ourselves faced once more with talk of the threat of inflation.

Because both individuals and businesses confronted with higher taxes will endeavour to find some means of countering their effects by securing higher money incomes, increases in taxation are likely to be less effective (and potentially more harmful) than reductions. Caution is desirable therefore in determining the amount of tax reductions. For if subsequently an increase is required, it will not restore the position to what it had been originally. Thus inflation generated by too generous a reduction in Year 1 may be increased (and not reduced) if the tax cuts are withdrawn in Year 2.

### THE PROSPECTS FOR THE NEXT FIVE YEARS

In 1951, when the Conservatives returned to power, taxes had just been increased very sharply. Today the position is the reverse. Taxes have only recently been reduced very dramatically. In 1951 we were standing at a point of high taxation with every reasonable prospect that, when the immediate difficulties of the exchange crisis were over, taxes would come down. Today we are standing at a point of low taxation with the threat of a boom which might get out of hand; the Bank Rate has just been increased and the Chancellor of the Exchequer is foreshadowing the need for further restraining measures. For these reasons there seems little or no prospect of immediate tax reductions of any consequence.

The analysis in the earlier paragraphs of this article suggests, moreover, that we are unlikely to see any important changes in the level of taxation in the next five years unless there are corresponding changes, up or down, in the level of expenditure. Provided the national income continues to grow, the yield of taxes at constant rates will also increase; and it will increase in fact more than *pro rata*, because the tax system as a whole is progressive. But expenditure is also likely to increase and in the fields of education and the social services it is likely to increase at least as fast as the national income. There may be some saving (in real terms) in debt interest but this is small in relation to the figures with which we are dealing.

The big reductions in taxation which have been possible in the last eight years were due to two main factors. First, as I have already said, the period started with very high rates of tax, while the lifetime of the present Parliament starts with the lowest taxes we have enjoyed for twenty years. Secondly, while government expenditure in the eight years 1951 to 1959 increased, it did not increase anything like as rapidly as the

national income. This was due primarily to the elimination of the food subsidies and the virtual stabilization of the amount spent on defence despite rising prices. These are gains not likely to be repeated. The Civil and Defence Estimates for the coming year which have just been published lend support to this view: they represent an increase in expenditure of no less than £341 millions compared with last year's original estimates.

Of course, one is always apt to feel that any level of taxation is higher than it need or ought to be. But we must be realistic and recognize that for good or ill we live in a community in which all parties are committed to the State playing an active part in the promotion of education and the social services and in the relief of sickness and want. It is difficult to believe that as time goes on we shall be applying a smaller proportion of our national income to these objectives. Indeed, our standards of care are more likely to increase than diminish.

For all these reasons I would not expect to see, for example, a standard rate of income tax of less than 7/- or 7/6d. during the lifetime of the present Parliament.

If all this sounds too pessimistic an outlook it is worth remembering that if we can only stabilize the proportion of the total national product taken in tax at the present figure of 25 per cent. or a little less, the growth in the national income will make that proportion progressively easier to bear.

If the prospect of tax reductions in the next five years is as limited as this analysis suggests, in what directions should the money available be used? The other important question which needs to be asked is whether there are important changes in the structure of our taxation system which can and ought to be made and which would not necessarily involve loss of revenue.

#### **DIRECT AND INDIRECT TAXES**

First of all, where should any money available for tax reduction go? Should the money be used primarily to reduce the income tax, or the indirect taxes, or the usual compromise of taking a bit off each?

In the last few years, whether by accident or design, a very important development has taken place in the income tax. In 1946 the number of people paying tax was 14 millions. In 1951 it was just over 16 millions and in 1958 it was just on 18 millions. It is not unlikely that the figure now exceeds 19 millions. The number of people not liable to tax had fallen by 1958 to 2,900,000 and will now be even less. This latter figure excludes people below the exemption limit of £180. Bearing in mind that the income tax figures count husband and wife as one, it is clear

that the great majority of people now pay income tax; the only exceptions are those with very small incomes (probably mostly retired people) or those with modest incomes and a number of dependants.

In the years immediately after the war, one main objective was to remove as many people as possible from the income tax net by increasing the allowances. This objective was defeated by inflation and it now seems to have been abandoned. This I suggest is a good thing. In view of the rise which has occurred in incomes, payment of tax at the lower end of the scale can no longer be regarded as a hardship; and certainly, if tax has to be paid, the income tax provides a more scientific measure of liability than the indirect taxes. Moreover, requirements of policy have altered greatly. During and immediately after the war much was heard of the "disincentive effect" of the income tax. With the gradual but substantial reductions in the rates these complaints have disappeared and PAYE, which ten or fifteen years ago was still novel and resented, has come to be accepted as part and parcel of the structure of life.

Today it is recognized that stabilization or reduction of prices is essential to permit expansion without inflation. Any money which is available for tax reduction ought to be used primarily in a way which will help to reduce prices. In 1958, central government taxes on expenditure amounted to £2,386 millions or 11·8 per cent. of the gross national product. This was the Chancellor's contribution to keeping prices up. No-one would suggest that all these taxes, or even the major part of them, could be removed. But this is where the money ought to go where tax remission is possible. A complete review of this field, with a view to the remission of some of these taxes, is urgent. One wonders, for example, why (in 1958) it was still necessary to impose taxes amounting to £48 millions on food-stuffs.

This is not a plea for reduction of taxes in a way which will effect the maximum reduction in the cost of living index. The index is supposed to reflect what is happening to prices generally and any attempt to manipulate it is dishonest. But equally the argument sometimes heard that it is barely worth while to reduce the purchase tax because it makes so little difference to the cost of living is misconceived. Any stimulus to lower prices is well worth while, whether it affects the official index or not. Currently, about 55 per cent. of the tax revenue is in direct taxes and 45 per cent. in indirect. The general objective ought to be to increase the proportion of direct taxation, primarily by concentrating relief on the indirect taxes.

### THE PURCHASE TAX

The purchase tax has proved too valuable an instrument for raising taxation for any Chancellor to be willing or able to abolish it. Moreover, as an indirect tax it is not a particularly bad one. The changes made in the last few years have been in the right direction and have improved the tax. It is much better to have the base of the tax as wide as possible and the rates low, rather than have a narrow base and high rates. The Chancellor has therefore been entirely correct in concentrating relief on reducing the rates rather than exempting individual items from tax. The reduction in the number of rates was also right, as the fewer the rates the fewer the problems of classification and the less difficulty in defending the treatment of individual items. The bottom rate of 5 per cent. is so low that there is little point in reducing it further. Although I regard further reductions in the purchase tax, as a contribution to lower prices, as having a high priority, in view of the limited amount of money likely to be available for tax reduction, I should be surprised to see the rates below 5, 10, 20 and 40 per cent during the lifetime of the present Parliament.

There is in my opinion no prospect of the purchase tax being replaced by a retail sales tax charged directly on retail sales. The present system of collection from wholesalers and manufacturers means that the Customs and Excise have to deal with some 60,000 firms, most of whom are substantial people keeping proper records. A retail sales tax would involve them in dealing with half a million shopkeepers, many of them in a very small way of business and often with inadequate records. I cannot see any Revenue department wanting to take on a job like that, nor can I see any Chancellor of the Exchequer, faced with the leakage of revenue it would entail, wanting to make such a change.

### THE TAXATION OF COMPANIES

With a standard rate of 7/9d. and profits tax at 10 per cent. the total tax at present paid on profits is 48 $\frac{2}{3}$  per cent. This compares with 52 per cent. in America. Moreover, the dividend in America is taxed again in the hands of the shareholder, with only a very restricted credit for the tax paid by the company; while in this country the full standard rate tax of 38 $\frac{2}{3}$  per cent. is treated as if it had been paid by the shareholder. In fact, the rate in this country is much less than it appears to be, because of the operation of the initial and investment allowances. With the big reductions made in the last Budget, and in the light of tax rates elsewhere, it is difficult in my

opinion to claim that rates of tax on industry in this country are still excessive. Of course, if taxes were lower or there were no taxes at all there would be more money available for expansion. But the lower level of expansion with which we have to content ourselves as a result of the present level of taxation is a reflection of our decision as a nation that we want the government to spend a quarter of our income on defence, education and the social services. We cannot take such a decision and hope to escape the consequences.

The initial allowances and investment allowances raise a particularly interesting problem. The amount of tax relief given through these allowances is growing steadily. If the allowances are extended, as the Royal Commission has recommended, to commercial buildings as well, the amount of relief will increase even more. While no entirely up to date figures are available, it is not unlikely that the total amount of tax relief is now not far short of being equal to the entire yield of the profits tax. Would we not then be better off if the initial and investment allowances were withdrawn and at the same time the profits tax were abolished? This would greatly simplify our tax system and at the same time remove many of the consequential accounting complexities. It would at the same time bring out clearly the fact that the real rate of tax payable by industry is less than 40 per cent. This in itself I believe would be a great gain.

If this were done it would result in some change in the incidence of tax. It is a matter of personal opinion whether this would be a good thing or not, but my own view is that the proposed system would be more equitable than the present one.

It may be objected that the initial and investment allowances are a valuable weapon for controlling booms and slumps. But in fact what tends to happen is that, when the allowances are increased during a recession to stimulate investment, the projects they stimulate come along just about the time that the boom which follows the recession has really got under way. Their effect then is to make a difficult situation much worse. If the allowances are then withdrawn or reduced, the effect is to cut off capital expenditure which would otherwise have fallen in the recession which inevitably follows the boom. The initial and investment allowances are, I feel, a relic of the old philosophy of controlling the economy by budgetary means. With the abandonment of that philosophy the time has come when serious consideration should be given to replacement of these allowances by a permanent reduction in the rate of tax.

### **COMPANY PROFITS—BASIS OF ASSESSMENT**

There is another important issue relating to companies. At present, company profits are assessed on the preceding year basis, with special provisions to deal with the years of commencement and cessation. The broad effect of these provisions is that in the early years one year's profit is charged twice, while in the closing years one year's profit is dropped out of charge. The problems to which the preceding year basis gives rise are too well known to require repetition. The matter was considered at length by the Royal Commission, who recommended that in the case of companies a scheme should be devised to enable them to be assessed on a current year basis. So far, this recommendation has not been implemented. There are, of course, innumerable theoretical objections which can be raised to any scheme for changing the basis of assessment for existing companies. But the way the Royal Commission's Report is worded leads me to suspect that they felt that the objections were unduly laboured. That certainly is my own view. Is it too much to hope that in the five years before them the government should turn their hand to solving this problem?

### **EARNED AND UNEARNED INCOME**

I do not support the suggestions made from time to time that the distinction between earned and unearned income should be abolished. Indeed, under the present system it may be argued that the scales are already weighted in favour of the owner of capital and that it is the earned income in the middle and upper income brackets which is excessively taxed.

The important issue is whether there should be some measure of taxation of capital gains. The Royal Commission considered this question and the majority report came down firmly against such taxation. I do not want to re-argue this question, as most of what can be said both for and against has been said on innumerable occasions. But it does seem to me that if a capital gains tax were introduced it ought to be looked upon, not as a means of raising additional revenue but solely as a means of redistributing the burden. In other words, any revenue raised from a capital gains tax ought to be used to reduce the surtax and possibly also to extend the earned income relief to all incomes. Logically, also, the stamp duties on Stock Exchange transactions, which operate as a rough and ready turnover tax on capital, should be abolished.

Politically, of course, the introduction of a capital gains tax, even on the basis considered above, would be fraught with danger, as there would always be the risk that the Socialists would keep

the capital gains tax and withdraw the income tax and surtax relief. For this reason I think it is very improbable, despite the American precedents, that we should see a Conservative government introduce a capital gains tax in this country.

### INCOME TAX AND SAVINGS

It is frequently argued that income tax relief should be given on savings. The matter was considered by both the Royal Commission of 1920 and the recent Royal Commission, and they both rejected the arguments.

The existing law does, of course, contain a large number of specific reliefs which are really reliefs on savings. Thus, the allowance in respect of life insurance premiums goes right back to Mr. Pitt's original Act. Apart from this relief the most important examples are the provisions relating to superannuation funds and their recent extension to the self-employed. The interest on savings certificates is exempt from tax. So too is the "income" on Premium bonds and the first £15 of interest on deposits in the Post Office and Trustee Savings Banks.

So long as relief is confined to identifiable items of income or payments, such as insurance premiums, it is perfectly practicable but any general relief in favour of savings would require a complete capital computation every year. It would be easy enough, for example, for the taxpayer to demonstrate that he had bought, say, £1,000 of industrial securities; but if this had been financed by selling other securities, or by running down cash balances or by a bank overdraft, there would be no net saving and no relief would be due. But this could only be ascertained by drawing up a balance sheet at the beginning and the end of the year. Although I would not rule out the possibility of extension of relief, *ad hoc*, to further specific types of saving, I think there is little prospect of any general relief in favour of savings as such.

### THE DEATH DUTIES

A number of suggestions have been made in recent years that the estate duty should be replaced by an inheritance tax: that is, duty should be charged by reference to the money received by the beneficiary and not by reference to the total estate left by the deceased. This is by no means a new point and it was the subject of lively debate in the latter half of the 19th century. There is, however, an important point which is sometimes overlooked. If duty is to be charged by reference to what the beneficiary receives, it would be essential to pay regard to his total capital as well as to the amount he inherited on a particular occasion. It would hardly be justifiable to

charge a man receiving a legacy of £1,000,000 duty at 75 per cent., while charging a man who received ten legacies of £100,000 each only 45 per cent.

The estate duty and the inheritance tax represent different but equally arguable approaches to the same problem. One's preference is a matter of personal opinion; but we have now proceeded on the estate duty basis for some sixty-six years, and it is difficult to see any compelling ground on which to switch horses now. Moreover, the change would involve the loss of about a year's revenue, as the estate duty is payable immediately on probate while an inheritance tax could often be paid only after the estate had been administered. I think it very improbable, therefore, that a change of this kind would be made, nor would I regard it as particularly desirable.

The estate duty can be criticized on the ground that it is easy to avoid, either by gifts *inter vivos* outside the five year period or by other means. The period for gifts *inter vivos* was extended from one year to five years in 1946 and a further extension would be possible. But time limits of this kind can be capricious and unfair in their incidence, and the enforcement of an extended period would raise serious problems both for executors and the Revenue. The solution which has been adopted in America is to charge all gifts *inter vivos* when made, accumulating them throughout the lifetime of the donor for the purpose of determining the rate of duty and finally aggregating them with the estate on death. If any action were taken in this country to impose a similar charge it ought to be regarded as a means of equalizing the burden, not as a means of increasing taxation, and the rates of estate duty ought to be reduced correspondingly. Indeed, the excessively high rates of duty now chargeable are in large measure responsible for the problems to which I have referred.

It is often suggested that the estate duty scale should be recast on the surtax principle, thus avoiding the serious objections to the present system, which involves a 100 per cent. rate in the marginal bands. There is, however, an important practical difficulty, particularly in the case of the larger estates where duty is payable under several different titles and there are different accountable parties. With a surtax type of graduation, it would be necessary, in order to apportion the duty correctly between the various accounting parties, to calculate the total duty applicable to all the property passing, to calculate an average rate and then apply this to the property passing under each title. This might in the end prove to be an even greater nuisance than the present system.

### MISCELLANEOUS MATTERS

There are a large number of instances where the present system is unfair or unreasonable and where a remedy can be found at no very great cost. The Royal Commission, for example, made a large number of detailed recommendations, many of which have still not been implemented. One reason for this, of course, is pressure on the Finance Bill and on Parliamentary time, and there is little doubt that in the next few years we shall see more of these recommendations implemented. An important example is the superannuation field, where arrangements for the self-employed have now been given legislative sanction but much else still remains to be done. Another is the treatment of commercial buildings, both for initial and investment allowances and annual allowances.

Two other examples of growing hardship which ought to be dealt with are the £2,000 surtax limit and the treatment for earned income relief and surtax purposes of the married woman who is at work.

Perhaps I should take this opportunity of saying that I do not agree with the present agitation for the abolition of Schedule A tax on owner-occupied houses. The man who invests, say, £5,000 in industrial securities is just as deserving a citizen as the man who invests £5,000 in buying his own house. The former has to pay tax on his dividends and he gets no deduction for his rent. Why should the latter pay nothing? There is the further practical point that if the Schedule A tax were abolished, there would be no logical ground for allowing building society interest against other income. In a large number of cases, the building society interest exceeds the Schedule A assessment. In these cases the effect of abolishing the Schedule A tax would be to increase the total tax payable.

### SUMMARY

My views can be summed up in this way:

- (1) Whatever views one may hold about the present level of taxation we are unlikely in fact to see any sizeable reductions in the next five years.
- (2) The general aim should be to keep the Budget neutral in effect and not try to use it to influence the general level of activity in the economy.
- (3) Because of the "one way" effect of tax changes, caution is needed in deciding on reductions.
- (4) Where opportunity for reductions does exist these should be concentrated on the indirect taxes.

- (5) There is no prospect of the purchase tax being abolished. The present policy of keeping the base as broad as possible and using any money available for reducing the rates is right and should be continued. There is no real case for trying to convert the purchase tax into a retail sales tax, which would be cumbersome and inefficient.
- (6) The policy of keeping the maximum number of people in the income tax net should be maintained.
- (7) In the case of companies, the present rates of tax are not excessive in comparison with those charged elsewhere. There is, however, a good case for considering whether the initial and investment allowances should not be withdrawn and industry be compensated by the abolition of the profits tax.
- (8) The recommendation of the Royal Commission that company profits should be taxed on the current year basis should be implemented.
- (9) I think it improbable that any action will be taken to tax capital gains but if it were it should be regarded as a means of redistributing the burden and not increasing the level of taxation. In other words, any revenue raised ought to be used to reduce the surtax, extend the earned income relief and abolish the stamp duty on transfers.
- (10) Similarly, if any action is taken to tax gifts *inter vivos*, either through a gift tax or by extending the present five year period, the revenue should be used to reduce the present excessive rates, which are themselves largely responsible for the problem.
- (11) There are a number of instances where the present system is unfair and where a remedy could be found at no unreasonable cost. Steps should also be taken to implement many of the remaining recommendations of the Royal Commission.

February, 1960.

F. A. Cockfield.

## India Plans for the 'Sixties

*By Geoffrey Tyson*

INDIA'S second Five Year Plan is practically over. In a few weeks from now the third plan (1961-66) will be presented to an expectant world, and by this time next year that document will have become the holy writ of economic policy. In contemporary jargon, India has passed in the last few years from a state of "under-development" to that of a "developing" economy. Hitherto she has been taxi-ing along the runway but now, at last, she approaches the point of take-off. For her the 1960's promise exciting possibilities and, if all goes well, substantial achievements.

What, then, are the prospects? Whatever they may be, they are of great importance to the rest of the world and especially to the United Kingdom, which, for historical and other reasons, has close trading ties and a large capital investment in India. As a country, India offers the supreme opportunity of applying a programme of planned economic development to an industrially backward society under conditions of free political choice. The vastness of the territory, the size of India's population and the urgency of her problems preclude any possibility of leisurely laboratory experiments in planning. Anomalies and contradictions notwithstanding, these must perforce be carried out life-size and in kind. Thus, there is nothing incongruous in planning for atomic energy by 1965 in a land in which the bullock cart is still the chief means of traction. Nor is the continued use of the wooden plough incompatible with the recent creation of three new plants (and the projection of a fourth) which will put India amongst the dozen largest steel producers in the world. On a counting of heads, India is said to represent about forty per cent. of the non-Communist under-developed world. If this be so, she has no alternative but to think big. Happily, the quality of her political leadership and civil service is an assurance that she has men equal to the magnitude of the venture she has undertaken.

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### THE NEED FOR RESOURCES

But at the moment India's problems are mainly those of resources rather than men, and it is with this aspect of her planning that the present article is primarily concerned. In the nineteenth century what we would now call problems of under-development largely centred round finding sufficient manpower to exploit the latent wealth and vast open spaces of North America and the White Commonwealth. The task in the second half of the twentieth century is to bring scarce resources to territories which possess masses of unused manpower but little else. India is the outstanding example of disparity between an excess of manpower and a deficit of resources, mostly of those kinds which are decisive for economic growth. It is clear, therefore, that the central objectives of the third and fourth Five Year Plans must be to narrow the gap between population and resources—by restricting the one and increasing the other—much more purposefully than hitherto. This, in the simplest possible terms, is the task to which India must address herself for the rest of the 1960's.

### POPULATION

Before considering the question of resources, let us look briefly at the population picture. The recent rapid increase in the population of India, as of other less-developed parts of the world, has taken place for two main reasons. On the one hand, improved medical techniques, particularly epidemic controls, have succeeded in reducing the death rate, with the result that Indian life expectancy rose from about 20 years in 1911–20 to about 35 years in 1955. On the other hand, there has been little or no fall in the birth rate. Even so, a life expectancy of 35 years—half that in the United Kingdom—cannot be rated as longevity, and Indians recognize that it is not very creditable to a country with an ancient and, in many respects, progressive civilization.

Demographic prophecy is notoriously hazardous. Nonetheless, proceeding from a figure of 386 millions in 1955, a recent study (*The Future Growth of World Population*, United Nations, 1958) estimated that India's population would be 417 millions in 1960, 456 millions in 1965, 504 millions in 1970 and 563 millions in 1975—which is a mere fifteen years hence. India is, in fact, a belated but almost classic confirmation of the Malthusian postulate that population multiplies in geometrical proportions and subsistence only in arithmetical proportions.

One would not expect the United Nations projection to be

accurate to the last decimal point, but we may reasonably assume that by the end of the 1960's India's population will have come pretty near to the 500 million mark. It is a sobering—even frightening—thought for those responsible for her economic policies and for providing work, food and welfare for her people.

### THE FOOD PROBLEM

A warning has already been issued on the subject of food supplies: an American team of agricultural specialists, which toured India in the spring of 1959 at the request of the Ministry of Food and Agriculture and the Ministry of Community Development and Co-operation, urged that production of 110 million tons of food grains by 1965-66 would be a reasonable target in view of India's rapidly rising population. The Americans gave it as their opinion that, if India's food production increases no faster than at present, there will be an annual gap between supplies and needs of some 28 million tons, or a deficiency of 25 per cent. in supplies, by the mid-1960's. "No conceivable programme of imports or rationing", says their report, "can meet a crisis of this magnitude". It is only fair to say that some competent observers reject this gloomy American prognosis in favour of the older and less dramatic report of the Asoka Mehta Committee; this examined the subject in 1957 and estimated 1960-61 demand for food grains at 80 million tons—which is probably about the right figure.

Thus viewed, it seems unlikely that, even in the most adverse circumstances, requirements will have risen by another 30 million tons in the next four years. The 1958-59 crop year was the best ever; it produced in all 73.5 million tons of food grains. But Indian agricultural production can swing from one extreme to the other—how sharply, may be gauged from the fact that the 1957-58 crop year produced only 62 million tons of food grains and that in 1956-57 there were 68.7 million tons. Even if 100 million tons were available annually they would hardly give India's teeming masses much more than one square meal a day. But there is another aspect to the perpetual food/population equation. The present precarious imbalance is most costly in terms of scarce foreign exchange. Notwithstanding grants under the U.S. Public Law 480 and other forms of special aid, imports of food grains cost India Rs 308 crores (£231 millions) of foreign exchange in the first two and a half years of the second Five Year Plan. Despite the bumper 1958-59 crop, the food group in the official wholesale price index was

6.2 per cent. higher in mid-January, 1960, than it had been a year earlier.

The conclusion is irresistible that India remains wide open to recurring crises—if not to catastrophe—on her food front, and that until an adequate margin of food safety has been created programmes of industrial expansion will not proceed smoothly. The urgent task of the 1960's will be to underpin the Five Year Plans with effective policies of agricultural production and distribution. What has been achieved for such commercial crops as jute shows that it can be done. The recent appointment as Food Minister of Mr. S. K. Patil, one of the most colourful personalities in the Congress Party hierarchy, is at least an assurance that the problem will now be tackled realistically—and perhaps quite ruthlessly.

### THE DEVELOPMENT OF INDUSTRY

It is their industrial content, however, which glamorizes India's Five Year Plans, projecting them on the attention of the rest of the world. After all, the new rural community development schemes are essentially a continuation, in what should be more favourable and responsive conditions, of policies which the district administration of the British *raj* pursued with varying success in the years prior to 1947. Better roads, elementary village drainage, embankments to store excess monsoon water, improved seeds for crops, co-operative society credits and commercial storage facilities—all these have been part of the stock-in-trade of the district officer for a hundred years or more. True, he can get the money for them more easily today than his predecessors of twenty or thirty years ago, and local support and voluntary labour should be more readily forthcoming. The organizational approach may be more ambitious but the basic ideas are the same as they always were. No new invention (except perhaps the tube well, which is not very new) has come forward to revolutionize the problems of the countryside.

With industry it is different. Here things are plainly moving forward for all to see, and the achievement to date has fired the imagination of the public at home and captured the respectful attention of India's friends abroad. The three new steel works have been the centre-piece of the second plan. Clearly, the third plan will provide for a vast extension of the metal-using industries. As the 1960's proceed, these are likely to challenge if not to supplant the primacy of textiles in the industrial complex of the economy. It is likely that this would have taken place anyhow, for the jute and cotton textile industries have

probably reached saturation point; but under the impact of highly centralized planning, and of Mr. Nehru's recent assertion that a rapid development of heavy industry is imperative for the country's defence, the shift will be greatly accelerated.

Even so, spokesmen of the old established privately-owned steel companies have expressed some doubts as to the wisdom of making any further early additions to the country's steel manufacturing capacity. When the three State-owned plants are in full operation, India will have an annual productive capacity of 6 million tons of ingot steel (against about 1½ million tons in 1957). It is thought improbable that domestic and export demand will have expanded sufficiently to absorb the additional output. Investment in the steel industry during the second plan period is calculated roughly at Rs 600 crores (£450 millions) in the public sector and Rs 144 crores (£108 millions) in the private sector. When fully staffed, the three State-owned units will require 2,100 men for supervisory and technical duties, and an additional 30/35,000 skilled and semi-skilled workers. These figures give some idea of the magnitude of the steel-making projects, which have accounted for by far the largest part of the resources that have gone into the second Five Year Plan.

In the more intricate phase of Indian economic planning now opening up, it is likely to become increasingly difficult to maintain a uniform pace of development in which industrial productive capacity never runs ahead of demand, or vice versa. There is a familiar war-time flavour about some of the bottlenecks which have begun to emerge. If steel is in prospective surplus, electric power is already in short supply, especially in the industrial areas of eastern India which had fondly hoped that, with the completion of the Damodar Valley multi-purpose irrigation scheme, there would be ample reserves of power to draw upon. Eighteen months ago, when imports of capital goods were in full spate, there was serious congestion, which took several months to put right, at major ports and on the railways. These are but two of a number of examples that might be quoted of the hazards of an enterprise which has many of the features of a great national emergency.

#### **EXTERNAL AID**

The planning authority's task is, of course, to synchronize the various elements in development, so that the whole operation moves smoothly forward. In the ordinary way, physical problems are susceptible to on-the-spot treatment. The great

imponderable of the Indian Five Year Plans is their heavy reliance on outside financial assistance, and the impossibility of being able to measure the prospect of this—except in rather rough terms—very far in advance. Her substantial war-time inheritance of sterling balances enabled India to finance the relatively modest foreign exchange requirements of the first Five Year Plan without difficulty, as well as to get the much more ambitious second plan away to a good start in 1956. By the beginning of 1958 the balances had been used up, and in the late summer of that year India was obliged to negotiate special credits from a group of five friendly nations, meeting under the leadership of the World Bank. These special credits were intended to meet the known short-fall in her foreign exchange resources for the remainder of the second plan period, after taking into account normal export earnings and invisible receipts.

India's Five Year Plans have proceeded, reasonably enough, on the assumption that some foreign financial assistance would be available. The authorities in New Delhi are understandably concerned lest the very real momentum which the second plan has given to the economy should be lost by a protracted hiatus over the quantum of external aid to be provided for the third plan. It is in response to these anxieties, and in recognition of the West's desire to help India, that high-level surveys of the Indian economic scene have recently been undertaken: for the third plan presents a situation in which the old adage about cutting the coat according to the cloth just does not apply, at least in its pristine simplicity. In this instance, India and her backers have first to agree what size of coat is necessary, after which they must see whether the cloth can be found.

The central defect of the second plan was that it was based on a calculation that the sizeable foreign assets which India still possessed in 1956 would last out much longer than in fact they did, and that somehow an uncovered exchange "gap" of Rs 800 crores (£600 millions) would be filled in the closing stages of the five year period. In the event, neither expectation worked out quite as predicted. The lesson has not been lost, and the Indian Planning Commission are unlikely to produce a third plan grounded in similar airy assumptions. Nonetheless, they cannot plan at all without some prior indication of the amount of help they may reasonably expect to bridge the foreign exchange deficit in the years 1961-66.

In his inaugural address to the Budget session of the Indian

Parliament, President Rajendra Prasad said "work on the preparation of the frame and the outline of the third Five Year Plan, with its longer perspective and higher targets, is making good progress." No details of the plan have yet been made public but enough is known to suggest that a total investment of round about Rs 10,000 crores (£7,500 millions) is contemplated. Of this, probably not less than Rs 2,000 crores (£1,500 millions) will have to be raised from external sources to make good the anticipated short-fall in foreign exchange receipts.

Stringent control over imports and private foreign expenditure has been in force since early 1957, and it may be assumed that for the time being ordinary foreign exchange earnings are just about adequate to pay for essential imports (industrial raw materials etc.), to permit necessary routine remittances and to service the not insignificant external debt incurred in the last few years. In this connection, some of the credits which India has received will probably be re-negotiated and extended for a further period of years. The figure of Rs 2,000 crores mentioned above thus relates to fresh foreign capital expenditure regarded as indispensable for the third plan. It must be emphasized that these are tentative calculations which have no official sanction, though they are probably near enough to what is in the Planning Commission's mind to illustrate the size of the claim which India's third plan will make upon outside support. To get magnitudes into perspective, it may be mentioned that the sum involved is almost exactly equal to the whole of the 1960-61 U.S. foreign aid budget (£1,491 millions) now before Congress. It is thus almost certainly a good deal in excess of the sum which is likely to be finally sanctioned. There is no particular magic about a comparison of this kind. It merely helps towards a mental picture of the size of the gap to be filled.

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The plan itself is designed to raise national income to £12,000 millions in the period 1961-66, an increase of 30 per cent. This would mean an increase of only  $12\frac{1}{2}$  per cent in the average individual income, from £24 to £27 a year. If these targets be attained, the expectation is that investment will rise from its level of 9 per cent. of national income to 13 per cent., thus coming within striking distance of the point at which growth begins to be automatic and self-sustaining. The third and fourth Five Year Plans will straddle the 1960's, and the

coming decade will be decisive for the concept of economic planning in the form which India has chosen. If growth in India fails to get ahead of consumption (and it is not yet conclusively established that it is ahead), the other emergent and under-developed nations of Asia and Africa will draw their own conclusions. They will have a powerful inducement to adopt totalitarian techniques of planning, with political systems to match.

To this extent, the foreign help required for India's third plan is not, as some people suppose, wholly or even mainly eleemosynary in character. For the lending governments of the West, it represents an investment in the political stability of the uncommitted Afro-Asian world. For the private foreign investor, it offers an opportunity, according to his judgement, to secure a footing in an economy which is manifestly expanding, despite errors on the part of the planning authority and the political hazards to come. At this level of consideration of long-term prospects, India is in a strong bargaining position.

But, in Keynes' memorable phrase, "in the long run we are all dead". Governments and other investors are necessarily concerned with the relatively short-term prospects of the Indian economy. The sort of question to which they seek an answer is whether India's present policies may not to some extent stultify the results which might otherwise be expected from further massive injections of aid. In a community in which the struggle for food absorbs so much of man's total activities, it would seem elementary that greater efficiency in food production is the way to release human energy for capital construction. But has Indian thinking wholeheartedly accepted this basic truth? Is not, in fact, too much thought still being given to problems of land tenure and too little to the productivity of the soil? The goal of a "socialist pattern of society", to which the ruling Congress Party is pledged, may be vague and undefined but it is a concept close to the heart of every back-bencher, conditioning his approach to all aspects of capital accumulation, at least in so far as capital accumulates in private hands.

#### **THE SCOPE FOR PRIVATE ENTERPRISE**

Is there a fundamental dichotomy between the philosophy of the socialist pattern and private foreign investment, which is essentially a function of the capitalist system? It is not really sufficient to declare that "as India is a store-house of experience in social organisation" (*Report of the Congress Planning Subcommittee*, New Delhi, September, 1959), the achievement of

socialism in that country will be a painless process for all concerned. Within the limits of its ability, foreign private enterprise, which is only too aware of the poverty of India's masses, is willing and anxious to make its contribution to an Indian welfare state. But it is not realistic to expect that such entrepreneurs will be strongly drawn towards a highly taxed, closely regulated and increasingly collectivist system—which is how the economy would develop during the 1960's if the left-wing elements, inside and outside the Congress Party, were to acquire control of the planning machine.

There is no lack of goodwill towards India in the West which, in various meaningful ways, has indicated readiness in principle to continue to support the country's planning programme. Given the yawning gap in external resources, it is at least as important that the leaders of Western opinion should be convinced the third plan is feasible as that the plan should be a paper exercise, designed to satisfy the natural desire of the Indian people for a plan of the largest possible dimensions.

There is a further point. All the evidence suggests there are important lessons to be drawn from the experience of the second plan, and in "selling" the third plan to the world there would be no harm, and perhaps much merit, in saying what those lessons are and how the pitfalls of the past may be avoided. No one expects that planning on the scale on which India has embarked can be carried through without mistakes. It is perhaps one of the good points of Soviet-type planning that periodically it does publicly acknowledge the error of its ways. In contrast, though Indians claim that their approach to their planning problems is "pragmatic" (a favourite word of the Prime Minister's), and while they freely admit failure to reach this or that target of production or investment, rarely is a voice raised in government to question methods, as distinct from results.

A case in point is coal, for which the production target in the second plan is 60 million tons. By the end of 1958 output had reached 45.3 million tons. Of this 39.5 million tons had come from the private sector which, by intensive mining of its existing properties, had increased its annual production by nearly 6 million tons during the first three years of the plan period. Against this, the State-operated public sector collieries, to which is reserved new development, increased their production by 1.4 million tons, from 4.4 million tons to 5.8 million tons. Estimates based on eight months' raisings put total 1959 production at 47.1 million tons. Hence, it is now as certain as anything can be that there is no possibility of attaining the

second plan target of 60 million tons, to which the private sector was to contribute 45 million tons and the public sector 15 million tons.

Assuming the same rate of increase in production for the remaining twelve months of the second plan, by 1961 the private sector output will have reached 42 million, against its annual target of 45 million tons, a short-fall of 3 million tons. By contrast, public sector production (which includes the large and previously privately-owned Singareni collieries) will have achieved no more than 7 million tons, against a planned output of 15 million tons. Given more encouragement and elbow room the private sector could probably step up output considerably, but in the sacred name of collectivist dogma it is not permitted to enlarge its operations in any significant way. Prices are rigidly controlled and the return on capital is lower in coal than in any other industry.

A more serious limitation on expansion is to be found in the government policy which bars the private sector from developing any areas other than those immediately contiguous to existing workings, for the Industrial Policy Resolution of 1956 provided that future development of the coal industry would be the exclusive concern of the State. Meanwhile, the urgency of the situation may be gauged from the fact that the steel industry's consumption of coal (especially coking coal) is increasing by leaps and bounds: it was 3.3 million tons in 1956, 4.2 million tons in 1958 and in the first half of 1959 was running at half a million tons a month, or 6 million tons annually.

It is not suggested that coal, where an existing shortage might well culminate in a serious crisis, is typical of the whole area of Indian planning, which has considerable achievements to show. Nevertheless, as a base for industrial expansion, coal is as important as food. Though the private sector may lack resources to raise production to the level that India will ultimately need (the Planning Commission has tentatively suggested 110 million tons by 1965), there would seem to be a good case for letting it do its job without the irksome restraints that are imposed in the alleged interests of "balanced growth".

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On many matters the government view is progressive and enlightened, but too often the attitude towards the private sector is grudging and lukewarm. On the whole, private foreign enterprise is assured of equitable treatment, though there is

a tendency to differentiate between the old and the new sectors of non-Indian business, generally to the disadvantage of the old. In a recent study of third plan possibilities the Federation of Indian Chambers of Commerce and Industry, an important body whose membership is confined to indigenous concerns, said "the crucial rôle of foreign investment can hardly be ignored, and conditions will have to be established so as to ensure a steady flow of such funds into our economy". The Federation added that what is wanted is "the invocation of an economic climate rather than a series of stray suggestions for marginal modifications in administration and financial affairs".

In this single sentence the Federation goes right to the heart of the matter. Though India's attitude towards foreign enterprise has become progressively friendlier in the years since independence, and while collaboration between local and foreign business has never been closer than today, there is still reluctance in some ministerial and official quarters to accept the proposition that a favourable investment climate is not just compounded of minor fiscal concessions. The Indian taxation structure is onerous and complicated, and for this previous British influence must bear some responsibility. Rates are high for a capital importing country, and the over-all effect is not offset by such things as special, but temporary, allowances for new undertakings in specified industries. Taxation of inter-corporate dividends is uneven and, in some respects, anomalous.

Withal, substantial profits are to be made in many fields. But one of the main problems facing foreign companies is the provision of adequate remuneration and retirement benefits for their expatriate personnel, in the face of competing employment at home and in other parts of the world. Though ideas of what the foreign businessman earned were always much exaggerated, it is not difficult to appreciate the Indian point of view: the country is poor and seeks to secure external investment and services on the best possible terms. But if India is to get what she wants she must pay the "going rate" both for capital and for the men who put it to work in a world which is short of both and is bidding against her. In any case, it is not reasonable to expect the foreign entrepreneur or executive (however admiring or sympathetic) to approach a great endeavour such as a five year plan in exactly the same spirit as might be expected of a national of the country.

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The inauguration of the third plan in about twelve months time will undoubtedly be preceded by a protracted public debate on its merits or defects. The presentation of the new plan "frame", which cannot now be long deferred, offers an opportunity for reconsideration of some of the policies found wanting in the first and second plans—an opportunity which may not quickly recur. At least as to some of its assumptions, every five year plan must be something of an experiment. Not even the most doctrinaire planner would suggest that, in the interests of consistency, manifestly wrong policies and decisions should be repeated from one quinquennium to another. As a people, the Indians are much too intelligent to commit that kind of error, and indeed they claim that flexibility is a central feature of their planning techniques. Apart from repayments of between Rs 550 crores and Rs 600 crores due to be made to foreign creditors in the early 1960's, the third plan will require considerable further external assistance. Much of that assistance will necessarily come from friendly governments and international institutions. But private foreign capital is also expected to make a significant contribution to the inflow of funds, and above all of expertise—a point on which President Eisenhower was most emphatic in a speech in New Delhi last December.

Is it too much to hope that the Indian authorities will take the opportunity of the launching of the third plan to look again at some of the removable difficulties which face foreign business operating in the country? It is greatly to India's credit that neither xenophobia nor the cruder forms of economic nationalism, of which there have been plenty of examples in recent years, have pervaded her policies since independence. Far from shunning foreign enterprise, India has, in many matters, taken it into her close confidence. With but a little more understanding she has the chance in this new decade to demonstrate to other parts of the under-developed world how to make the most profitable use of private foreign capital.

*London.*  
*March, 1959.*

Geoffrey Tyson.

## The Economics of Health Services

*By D. S. Lees*

THE National Health Service is a major feature of the social revolution in Britain in the past twenty years. Initial controversy has long since died away and it is now generally accepted as one of the facts of life. There has been a succession of enquiries into its cost, the adequacy of services, the supply of doctors and dentists, wages and salaries, prices of supplies and so on—but, so far, a strange neglect of general economic principles. With the tenth anniversary of the Service well behind us, it seems time to make a start in examining its economic credentials and its place in the general development of the economy.

### THE BILL TO THE TAXPAYER

From the table opposite it will be seen that hospital and specialist services claim a dominant share of central government expenditure on the Service. Moreover, this has been an increasing share: 63 per cent. in 1958/59, against 55 per cent. in 1949/50. The bulk of the expenditure is met out of taxation, which has accounted for a steady 90 per cent. of the total. The increase in income from national insurance and health contributions has been due to the introduction in 1957/58 (and increase in 1958/59) of a Health Service element in the weekly insurance stamp.

As regards some of the individual health services in England and Wales, the number of hospital beds has shown little change in recent years, after an increase of 24,000 between 1950 and 1954. While there are somewhat fewer people on hospital waiting lists, the number of new out-patients increased by nearly 740,000 between 1954 and 1958. The hospitals are also better staffed, whole-time medical and dental staff in 1958 being 2,400, or 25 per cent., greater than in 1950. Similarly, there has been a rising trend in the number of doctors in general practice,

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The author is Lecturer in Economics in the University College of North Staffordshire. This article is a revised version of a lecture given at the annual conference in London in November, 1959, of the Association of Chief Financial Officers in the Hospital Service in England and Wales. Dr. Lees is grateful for critical comments by Mr. C. W. Guillebaud, who is not, of course, committed to any of the views expressed.

TABLE 1—*National Health Service*

	1949/50	1952/3	1954/5	1956/7	1957/8	1958/9
<u>Expenditure and Income</u>	£m.	£m.	£m.	£m.	£m.	£m.
Gross expenditure by Central Government	446	518	525	621	661	714
<i>of which on hospital and specialist services</i>	247	296	324	388	414	447
Financed by:						
Taxation	395	467	470	558	592	643
<i>of which: General Taxation</i>	354	426	429	516	527	538
<i>National Insurance and Health Contributions</i>	41	41	41	42	65	105
Health Service charges	3	20	25	29	33	33
Miscellaneous	48	31	30	34	36	38
Total Income	446	518	525	621	661	714
<i>(England and Wales)</i>	1950	1952	1954	1956	1957	1958
<u>Hospital Services</u>						
Staffed beds '000	458	473	482	483	483	483
Persons on waiting lists '000	531	500	474	431	440	443
Out-patients: new cases '000	n.a.	n.a.	11,366	11,838	12,016	12,102
Medical & dental staff	9,650	10,581	11,152	11,756	11,994	12,060
Nursing & midwifery staff '000	132	141	145	146	148	153
<u>Medical Services</u>						
Doctors on list	n.a.	17,298	18,513	19,180	19,437	19,685
Number of patients per doctor	n.a.	2,431	2,293	2,272	2,273	2,267
<u>Pharmaceutical Services</u>						
Prescriptions dispensed m.	217	216	219	229	207	203
<u>Dental Services</u>						
Dentists on list	9,657	9,485	9,276	9,448	9,646	9,718
Courses of treatment given '000	9,586	9,000	9,337	10,740	11,297	12,079

with a slight decrease in the average number of patients per doctor. The number of dentists has risen much less, though in 1958 three million more courses of treatment were given than in 1952.

At first sight, the rise in the cost of the Service has been alarming. Large supplementary estimates were submitted in 1949 and 1950 and the *actual* cost for 1949/50 was 70 per cent. greater than the *estimated* cost, at an annual rate, for 1948/49. Ceilings were imposed on expenditure in 1950/51 and 1951/52. Charges were introduced in May, 1951, designed to damp down demand and to defray part of the cost; they were increased and extended in June, 1952, and again in December, 1956. But the cost of the Service has continued to rise and for 1960/61 will be at least three-quarters greater than for 1949/50. There is no longer any talk of ceilings, which would appear to have gone through the roof.

The charges, mainly for dental and ophthalmic treatment and supplies and for drugs and appliances, have played a useful rôle in keeping the cost down. In 1958/59 they raised an estimated £33 millions and have contributed to the fall in demand since 1950 for prescriptions, dentures and pairs of glasses. Without them, it seems reasonably certain that the cost of the Service to the taxpayer would have been at least £50 millions higher. As it is, this cost is far greater than anything envisaged in 1948. The main reason for the marked discrepancy between intention and outcome has been the substantial rise in

TABLE II—U.K. Public Health Expenditure 1949–58

(a) <i>Current prices</i>	1949 £m.	1952 £m.	1955 £m.	1958 £m.
1. Current expenditure .. .. .	413	489	561	703
2. Gross capital expenditure .. .. .	14	16	21	28
3. Total expenditure .. .. .	427	505	582	731
(b) <i>1954 prices</i>	1949 £m.	1952 £m.	1955 £m.	1958 £m.
1. Current expenditure .. .. .	488	509	537	574
2. Gross capital expenditure .. .. .	18	16	20	24
3. Total expenditure .. .. .	506	525	557	598
4. 2 as % of 1 .. .. .	%	%	%	%
5. 1 as % of gross national product .. .. .	3.7	3.1	3.7	4.2
6. 2 as % of gross fixed capital formation .. .. .	3.1	3.1	2.9	3.0
	0.9	0.7	0.7	0.8

prices. When allowance is made for this, it can be argued that the increase in cost is far from frightening. Indeed, in a decade of vigorous expansion of the social services, health services have lagged behind. This can be shown most readily if we extend the picture to the whole United Kingdom and include individual health expenditure by local authorities, which is about 10 per cent. of the total.

As Table II shows, in money terms current expenditure on public health services increased by £290 millions, or 70 per cent., between 1949 and 1958. In real terms, however—after making allowance for the rise in prices—the increase was only £86 millions, or 18 per cent. This compares with increases, also in real terms, of 37 per cent. in social services as a whole, of 43 per cent. in education and of 45 per cent. in social security (Table III). As a result, health expenditure has fallen from 28 per cent. of social service expenditure in 1949 to 24 per cent. in 1958. Over this period, gross national product in real terms increased by 23 per cent.; hence the proportion absorbed by public health expenditure fell slightly, from just over to just under 3 per cent. In contrast, both education and social security expenditure rose faster than incomes. Thus, in respect of

TABLE III—*U.K. Social Services 1949–58*

(a) <i>Current expenditure at 1954 prices</i>	1949 £m.	1952 £m.	1955 £m.	1958 £m.	% rise 1949–58
1. Health services . . . . .	488	509	537	574	17.6
2. Education . . . . .	379	413	466	541	42.7
3. Social security, etc. . . . .	890	944	1075	1292	45.1
4. Total Social Services . . . . .	1757	1866	2078	2407	37.0
5. 1 as % of 4 . . . . .	27.7	27.3	25.8	23.8	
6. 2 as % of 4 . . . . .	21.6	22.1	22.4	22.5	
7. 3 as % of 4 . . . . .	50.7	50.6	51.8	53.7	

(b) <i>Gross fixed capital formation at 1954 prices</i>	1949 £m.	1952 £m.	1955 £m.	1958 £m.	% rise 1949–58
1. Health services . . . . .	18	16	20	24	33
2. Education . . . . .	61	82	90	126	107
3. Social security, etc. . . . .	2	3	3	3	50
4. Total Social Services . . . . .	81	102	113	153	89
5. Total—U.K. . . . .	2031	2143	2710	2973	46

Note: Social Services *exclude* housing.

current expenditure, it is education and social security, not health, that have been making a more than proportionate claim on national output and on the taxpayer's income over the past decade.

On capital account, the health services have without doubt fared badly. The restrictions on capital expenditure, imposed during the war and only now being relaxed, reduced the capital/current expenditure ratio to an absurdly low level. Before the war, expenditure for capital purposes was about one-fifth as large as current health expenditure; since the war it has been equivalent to only 3 or 4 per cent. This is far below the level at which current operations can be carried on efficiently. According to Messrs. Abel-Smith and Titmuss, the rate of capital expenditure up to 1952-53 was below half the level needed to maintain the existing stock of around 500,000 hospital beds. The need for a sharp increase in the rate of capital expenditure is obvious.

Looking now over the longer period 1938 to 1958, health expenditure (both public and private) per head of population increased in real terms by 10 per cent; that is, at about the same rate as consumer expenditure as a whole. From this point of view also, it would be difficult to maintain that the introduction of the National Health Service has resulted in a spending spree. Indeed, one might hazard that, had people been left to make their own choices instead of having these choices made for them by public authorities, they might well have spent more rather than less on health services. If that were so, public health services would have been keeping expenditure down rather than pushing it up.

Although the costs per head of health services have not increased strikingly since 1938, this does not of course mean that the change-over from private to public expenditure is of no consequence. In 1938, health expenditure was two parts private and one part public. Today, it is virtually all public. This switch from private to public expenditure means, among other things, that the level of taxation is higher than it otherwise would have been. How much lower taxation would have been had the National Health Service not been introduced is impossible to establish with any accuracy, but a reasonable estimate is more than £500 millions. Put in perspective, this means that purchase tax could be abolished or the standard rate of income tax reduced by two shillings. These are not negligible figures. It could be maintained with cogency that, had taxation been so much lower, the greater incentives to work, to save, to cut costs and to take risks would have raised

total output and investment above their present levels and have enabled us both to enjoy the present standard of health services and to have additional resources for use in other directions. This is one of the costs of public health services that is too often overlooked.

### ADEQUATE OR OPTIMAL?

Having put health expenditures in some kind of perspective, we can now go on to consider what they mean. It seems reasonable enough to begin by asking whether health services are "adequate" or not. The Minister of Health is charged with providing adequate health services and the general public demand them. But, when the Guillebaud Committee on *The Cost of the National Health Service* (1956) were asked by the government to define an "adequate" health service, they failed because "there is no objective and attainable standard of 'adequacy' in the health field".

In a world of scarce resources, where choices have to be made, expenditure on any particular good can never be pushed to the technical limit; "adequacy" comes to mean whatever we want it to mean, nothing more and nothing less. The economist's concern with what is "optimal" is far more fruitful. In a free market there is no need to ask whether the production of tooth-brushes, nylon stockings or anything else is "adequate". The question is not so much meaningless as irrelevant. Consumer choice and the forces of competition will ensure that the production of goods is *approaching* the optimal, if it is never actually identical with it.

When goods are supplied by public authorities, free or at nominal prices, there is no such automatic check. We do not know, nor is anything built into the machinery of the public sector to tell us, whether production is optimal or not. Economists can state the formal conditions for optimal allocation: health expenditure should be pushed to the point at which marginal social benefit equals marginal social cost. This is not without its uses; it emphasizes that health services are a competing claim on national output and that a choice has to be made between spending on health services or spending on something else. But it is of little or no use as a guide to the practical decisions that government officials have to make. This is a serious matter. It means that, from the point of view of economic welfare, the amount and composition of government expenditure are arbitrary. With any given national output, we do not know whether the community as a whole would be better off or worse off if government expenditure were different

in total or composition. Far less do we know how much better off or worse off.

The picture is the same with regard to the growth of national output—with being better off in the future. Government expenditure can be looked at in one way as a kind of “social input” from which there results a social output. When a businessman is investing in a piece of machinery, he knows what the machinery costs and he has some precise notion about the output of goods that will flow from it. He invests £X and expects to get £Y in output. So far, nobody has been able to establish any quantitative relationship between inputs of government expenditure and the resulting output of goods and services. We can, however, make *qualitative* statements about input and output. There can be no doubt that some items of government expenditure on current account make important contributions to the growth of national output. Education, and particularly technical education, is the outstanding example. In our final section we shall suggest that, contrary to general opinion, health expenditures no longer fall into this category.

Another way of putting the same point would be this. Traditionally, economists have laid great stress on investment in *physical* capital as a means of increasing total output. Latterly, there has been a growing awareness of the importance of investment in *human* capital, with special emphasis on education and health. These investigations are in their infancy; they are far from the stage at which it could be established that, if £X were invested in education, £Y of output would result from it. Yet it is precisely this kind of relationship that has to be established before we can say whether we shall be better or worse off, and by how much, if this or that item of government expenditure were increased or reduced by a given amount. At the moment we have no proper criteria which enable us to make an intelligent choice between, say, schools and factories.

#### **PUBLIC OR PRIVATE GOODS?**

Most of these problems would disappear if goods which are at present supplied by public authorities were transferred to the market. For some goods this would not be possible and these we can call “pure” public goods. They have the essential characteristic that they must, by their nature, be consumed equally by all: they cannot be enjoyed separately and directly by individuals. The most obvious examples are military defence, internal law and order and street lighting, paid for by the levying of taxes. Determining the production and distribution of goods such as these by means of price is out of the question,

since their benefits cannot be imputed to individuals and individuals can enjoy the benefits whether they pay the price or not. If pure public goods are to be provided at all they must be provided collectively and if they are to be paid for the most appropriate method is a compulsory levy.

Clearly, although health services are now provided by public authorities, they are not pure public goods. They can be enjoyed separately and directly by individuals, and increased consumption by some individuals implies reduced consumption by others. They can thus be subject to price and be made part of the market economy. We shall enquire in a moment into possible economic reasons why they should not be so.

In the view of the Guillebaud Committee, expenditure on public health services is a matter of political decision. In present circumstances, things could hardly be otherwise. Public health services are an "industry" whose expenditure is subsidized virtually 100 per cent. Tight political control follows as a matter of course from the need to ensure proper use of public funds and from the fact that public funds are not unlimited in supply. As long as the "100 per cent. subsidy" system is continued, decisions will continue to be made on a political rather than on an economic basis. If, on the other hand, health services were made part of the market and subjected to private valuation and competitive forces, the decisions would be primarily economic. Whether to produce them in this or that amount would be on all fours with the decision whether to produce tooth-brushes or nylon stockings in this or that amount.

There is a strong presumption in this country in favour of individual freedom of choice. The general consensus is that where private choice is possible it should be allowed its expression. If this principle is to be transgressed, the reasons for doing so must be unusually cogent. The onus is on those who want to take goods out of the market sector, not on those who want to put them in. The point is not met simply by public authorities charging an economic price for health services. This would solve some important problems. In particular, it would shift the emphasis from the meaningless principle of "adequacy" to the more meaningful principle of the "optimal" and from political to economic decisions. But this would be true of *any* goods taken over from the private sector. For public authorities to have a sensible pricing policy (and in practice they very seldom do!) does not establish even an *a priori* case for public provision.

Whatever the pricing policy and the strength of good intentions, well-known consequences inevitably follow from the

fact of public monopoly. The freedom of choice of the consumer is restricted. There is no competition to provide built-in guarantees against inefficiency. There is no dispersion of decision-making power to prevent small mistakes becoming large catastrophes. Above all, there is pervasive political control. These consequences are far from trivial; they should clearly be avoided whenever possible. The nature of health services presents no fundamental difficulties. They can be made subject to price, with the poorer members of the population enabled to pay those prices by subsidies on any scale considered necessary. Decision-making can be dispersed; competition can play its rôle. The standard economic arguments in favour of public ownership are thus irrelevant. To argue that health services monopolized by public authorities should be sold at economic prices is in effect to argue that they should be restored to the market. If provided on any scale by public authorities, health services ought to be supplied free or at nominal prices.

#### **CASE FOR PUBLIC PROVISION**

We must now enquire briefly into the justifications advanced for this procedure from the economic point of view:

- (1) Health expenditures carry with them what can be called "external benefits": that is, the benefits of the expenditures accrue not only to the individual who makes them but to the community in general. It is obvious, for example, that the whole community benefits from the elimination of epidemic diseases; in market terms, this means that the individual is paying not only for his own health but for the health of other people as well. The market takes account only of private benefit so that, as private benefit in this case is less than public benefit, the supply of vaccine and the like will be smaller than is collectively desirable.

Not all health expenditures are of this kind. A sharp line must be drawn between public menace (like small-pox) and private misfortune (like a broken leg). In the first, health expenditures involve a substantial divergence between private and public benefit; in the second, there is no divergence at all. Detailed research would be required to be certain about this but one's guess would be that the majority of health expenditures today are of the second kind. At least, the "external benefits" argument should not be over-done. Further, divergence between public and private benefit provides no reason in principle for health expenditures to be taken out of the

market and supplied free by public authorities. It would be possible to subsidize private health services out of public funds to make up the difference between the two. This would not be an easy task but it must suffice to say that the whole structure of our society would be very different if we were to solve every fiscal problem of this nature by public ownership.

- (2) There is the assertion that, if people are left free to buy health services like other commodities they will not buy as much as they "ought", by some general social notions, to do. As the community is composed of individuals, this kind of proposition contains a certain State mysticism that is easier to mistrust than to understand. In the increasing affluence of our society, and after the best part of a century of compulsory education, it is not easy to be persuaded that people generally are so unheeding about the welfare of themselves and their children that they would behave, if left free to do so, as if health expenditures were unimportant. Indeed, we know that in 1938, before the Health Service came into existence, people spent, in real terms, only 9 per cent. less on health than we were doing, through the public health service, twenty years later. This hardly suggests that individuals, if left to their own free choice, would have spent less on health services than public authorities have done.
- (3) It is maintained that health services cannot be left to market forces because of inequalities in the distribution of income and wealth. These inequalities, it is argued, result in serious deviations from optimal allocation and, while public provision may not ensure the optimal, it will ensure some equality of consumption of health services. This argument would apply to expenditure in general, not simply to expenditure on health. In the market people buy with money, and people with more money are able to buy more than people with less money. To some, this means that the market should be wound up altogether; to most, that would be throwing out the baby with the bath water. This dilemma can be avoided by postulating that health expenditures are in some way "more important" than other expenditures. This may or may not be so, according to one's viewpoint. What we need to note is that this method of approach takes the problem out of economics and into the realm of moral philosophy. But there is no real need to state the problem in that way. One can distinguish between the functions of

the market in the production and distribution of goods, on the one hand, and in the creation and distribution of income, on the other hand. If the distribution of income and wealth is thought for some reason to be inappropriate, it can be altered by means of taxes and subsidies, leaving the market free to settle the production and distribution of goods. This has been the main direction of official policy during this century. The social services are the major exception to the rule.

- (4) If the price system is to work satisfactorily, suppliers of services must be able to enter the market with reasonable ease and prices must be uniform for similar goods and services. Before it was superseded by the National Health Service, the market in health services was defective in both these respects. Entry was difficult, due to the high costs of training and to the restrictions imposed by professional associations. Prices for similar services were graded according to some notion of the customer's ability to pay, or (put less charitably) according to some assessment of what the traffic would bear. These are not compelling reasons for superseding the market by public provision, nor has much been made of them in this respect. But it is as well to be clear that, if private provision should again play a major rôle in the health services, these defects would need to be eliminated if the best results were to be obtained from the market.

We have been concerned here mainly with the economic aspects of public health services. It may well be that there are moral considerations which could be held to outweigh the economic ones. On purely economic grounds, however, the case for public provision is weak, while a persuasive case could be made for returning health services to the private sector, especially if this were freed from the defects of the former market. If that were done, an answer could be given to the question of the optimal amount of health expenditures which, in the public sector up to now, has been found insoluble; the repercussions of mistaken decisions would be minimized by the dispersion of power; efficiency and variety would be encouraged by competition; and the ingredient of political decision in the determination of supplies would be greatly reduced. In addition, the general level of taxation could be lowered very substantially. Combined with these advantages would be the important social benefit of giving expression to individual freedom of choice. These conclusions are significant for those who hold that health services, along with other social services, should be treated as

a necessary but temporary phenomenon of twentieth century society, to be replaced gradually by private provision.

### BURDEN OR BENEFIT?

An important part of the case for public health services has been that the expenditure involved would be more than justified by the consequent increases in national output; in other words, that health expenditure would leave the community as a whole both healthier *and* wealthier. This argument was used by the Webbs in the early part of the century and, as recently as 1956, we find the Guillebaud Committee maintaining that "the National Health Service is wealth-producing as well as health-producing."

This argument, undoubtedly true in earlier stages of development, has been of diminishing force in the present century. The point has now been reached—and may well have been reached some time ago—when *further increases* in health expenditure will be health-producing but not wealth-producing, and thus in the economic sense unproductive. Future increases in health expenditure should be regarded as consumption and not as investment. There is, therefore, an unavoidable conflict between improvements in the health and improvements in the wealth of the community as a whole. In this sense, further increases in health expenditure will be a burden and not a benefit. It is a little ironic that public authorities have undertaken to extend health services at the very time when, from the economic point of view, they can do least good.

Health expenditures made their main contribution to the wealth of the community through the part they played in reducing the death rate between 1750 and 1900, thereby causing a vast and sustained increase in population. Given what Keynes called "a complex of suitabilities in the environment", this increase in population pulled along with it a vast and sustained increase in capital formation, which in turn caused a vast and sustained increase in output per head of population. The relationships were, of course, very much more complicated than this. Many factors other than health expenditures contributed to the fall in the death rate. The increase in population was not the sole cause of the growth of capital formation. Capital formation was not the only force behind the growth of output per head. But there would be general agreement that health expenditures, increasing population and capital formation were factors of central importance.

Starting from a low expectation of life in 1750, the fall in

the death rate had three effects: (1) a rapid increase in total population; (2) a rapid increase in the population of working age; (3) a rapid increase in the number of females in the age-group 15-45 years, when fertility rates are effective. The first exercised its pull on demand and especially on capital formation. The second provided an expanding labour force. The third ensured that the increase in population would be sustained. Thus, throughout the nineteenth century the growth of population was vigorous, young and self-sustaining. In the present century the effects have been different and are becoming increasingly different from those of the nineteenth century.

We started with a much higher expectation of life in 1900, in part because of health expenditures in the previous hundred years. Increases in health expenditure which have further lengthened the expectation of life have in this century added mainly to the retired population and to females in the age-group over 45 years; that is, to the unproductive and unfertile members of the community. By 1975 one in every seven of the population will be over 65, compared with one in 21 in 1901, and 35 per cent. of females will be in the 45-64 age-group, compared with 15 per cent. in 1901.

Further, according to the Ministry of Health, the death rate is about as low a figure as one can expect from the sex and age pattern of the present population. This means that the possibilities of an increase in population through a decline in the death rate, on the nineteenth century pattern, are very limited indeed. A hundred years ago the expectation of life of a male at birth was 40 years and of a female 42 years; today, the respective figures are 68 and 74 years. In the same period the infant mortality rate has fallen from 135 to 23 per 1,000 live births and the crude death rate from 25 to 12 per 1,000 population. It is little wonder that the Royal Commission on Population concluded that "most of the wastage of human life that formerly took place in young and middle ages has now been cut out. Only among the old could further reductions in mortality have really considerable effects on numbers".

If population is to increase in the future, and to provide a favourable environment for capital accumulation and growing wealth, it must be through a rise in the birth rate. On this, health expenditures have little or no direct effect. Their effect is indirect, via the level of wealth. While the forces determining the birth rate are imperfectly understood, it is widely held that rising living standards act as a check upon it. The birth rate in this country, for example, has fallen in the past hundred years from something like 30 to around 16 per 1,000. In so far as they

have contributed to the rise in living standards, therefore, health expenditures have tended to reduce the birth rate.

### HEALTH v. WEALTH

Whereas in the nineteenth century health expenditures in this and in other developing countries were a boon to economic growth, increasingly in this century they have tended to retard growth. We are thus faced with the very real choice between devoting resources to health or devoting them to wealth-producing activities like education or capital formation in industry. Health services have played their part in laying the foundations for the present standard of living. They have now virtually exhausted their potentialities in this particular direction.

Further, health services will make greater demands on resources in future precisely because of their past successes. There is the obvious fact that elderly people are likely to be more vulnerable to illness and to require more care and treatment. More important, it seems reasonably certain that, in subtle and as yet unexplained ways, the human body becomes susceptible to more sophisticated diseases as the elementary ones are cleared away; and these are more expensive in their demands on health services. The jejune notion of ten years ago that there was some back-log of ill-health to be worked through which, when this had been done, would result in a declining demand for health services is gradually being replaced by the idea that the more successful health services are the more expensive they will become.

A number of possible offsetting factors have to be considered. It is frequently said that more hours of work are lost through sickness than through any other single cause. This is true, but it turns out on examination to mean no more than that the other causes are relatively unimportant. Over the last five years, 3 million working days a year have been lost on the average through strikes and 25 million through sickness. But the total of working days per year for the economy is around 5,000 millions. Thus, if by some miraculous act of medical advance all absence from work through sickness were eliminated, the total labour force would be increased by a once-for-all one-half of one per cent. And for reasons that are obvious—reorganization of the labour force and the like—we could not expect a proportionate increase in output. So there is little hope here that large increases in health expenditures would pay for themselves in increased output.

Secondly, over the years health services have undoubtedly helped to improve the quality of the labour force and so led to

increased output. But no quantitative relationships have been established between "fitness", somehow defined, and changes in output. We seem to have got little further than the unexceptional notion that a fit man works better than an unfit man. This seems a slender thread on which to hang large public expenditures. By general consent, the vast bulk of the population today is "fit", as much by good luck and good food as by good medicine and, while the case is non-proven, it seems at least doubtful that further improvements in "fitness" will be any considerable aid to output.

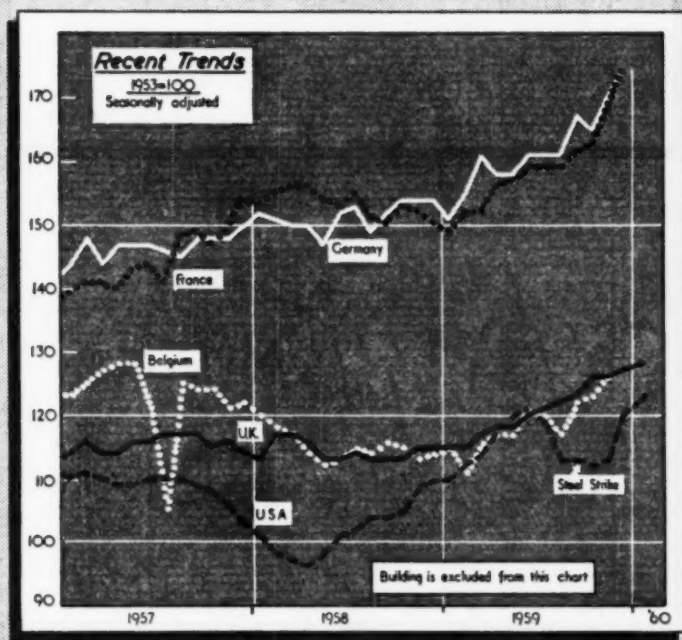
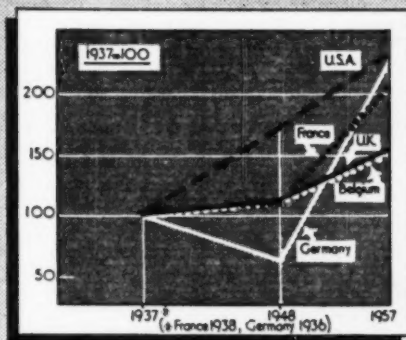
Thirdly, it may be maintained that every pound of expenditure on health produces more economic welfare than that on other types of consumption. Even if increases in health expenditure did not increase total output, therefore, they could result in a higher level of economic welfare and could thus be called "productive". It must be conceded at once that the usual measure of economic welfare—total output or national income—is a crude one. Its great merit is that it is measurable and objective, whereas the notion of welfare is unmeasurable and subjective. Until we have an independent measure of welfare, the economist must be forgiven for sticking to those things in the universe of men that can be measured and inferring from them information about those things that cannot.

The idea that further expansion of health services will be health-producing and not wealth-producing—that it should be classified, that is, as consumption and not investment—has fairly straightforward implications for public policy. If it is accepted that the investment potential of health expenditures is now exhausted, then the question whether health services should be expanded, and if so how rapidly, depends on an evaluation of consumption now as against enhanced consumption in the future. If the emphasis is on economic growth, it would follow as a matter of consistency that expansion of health services should be slow rather than rapid. Resources will be used instead in the wealth-producing sectors of the economy. The increase of national income will be the more rapid in consequence; and although the health services have little further to contribute to this, they will over the years benefit from it.

*University College of North Staffordshire.  
March, 1960.*

D. S. Lees.

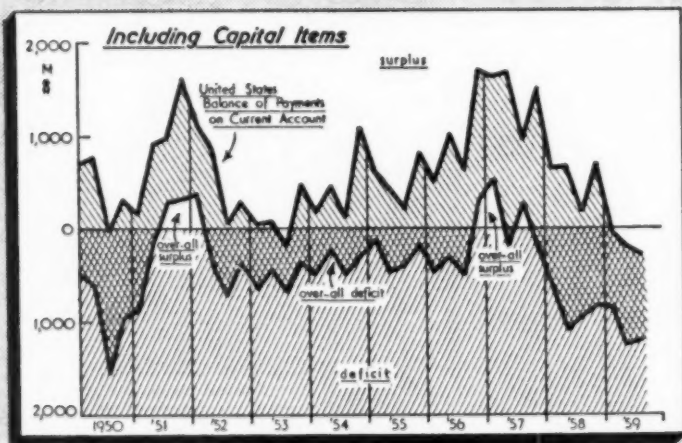
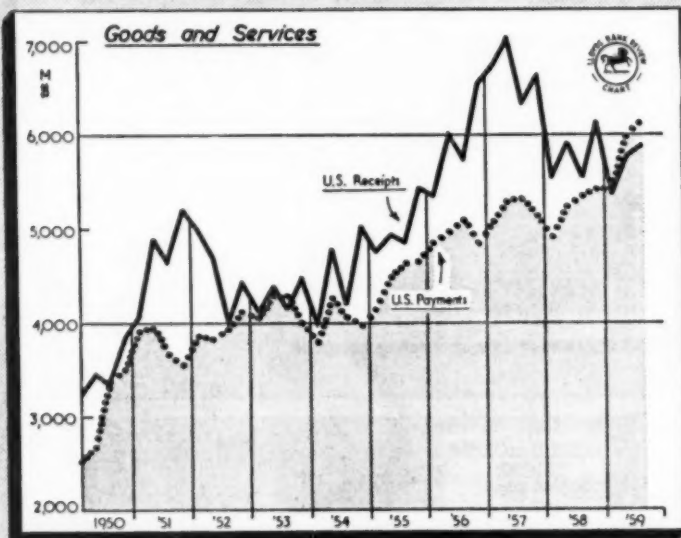
## INDUSTRIAL PRODUCTION



SOURCES: O.E.E.C. Statistical Bulletin  
International Financial Statistics

Industrial production in Britain has risen sharply since last spring and in January was more than 10 per cent. higher than a year earlier. However, this still leaves the net expansion since 1953 considerably below that recorded in either Germany or France.

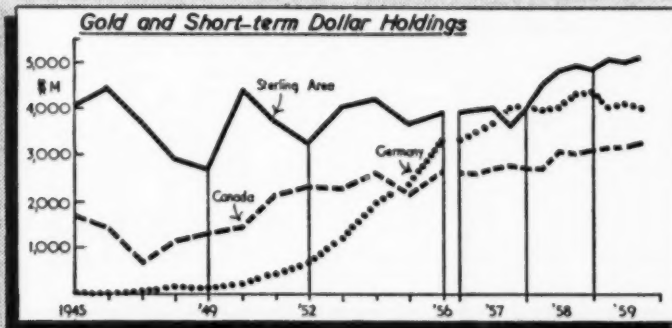
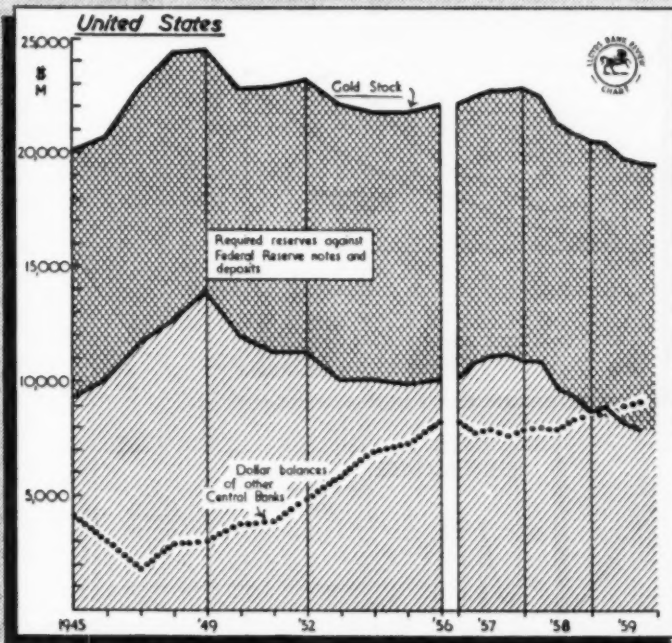
## THE DOLLAR BALANCE



SOURCE: Survey of Current Business,  
Balance of Payments Supplement

Until early 1959 the United States had for many years a surplus on the balance of payments on current account. Allowing for such items as the cost of aid and capital movements, however, there was (except in 1951/2 and 1956/7) an over-all deficit, which in 1959 was running at an annual rate of about \$4 billions.

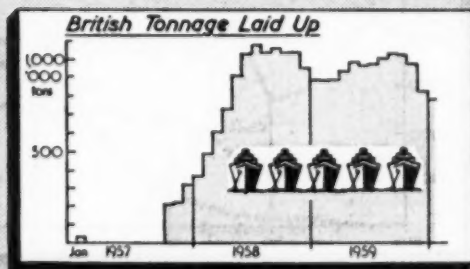
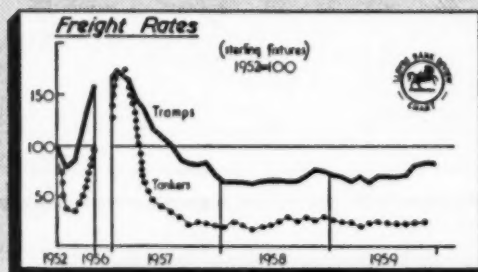
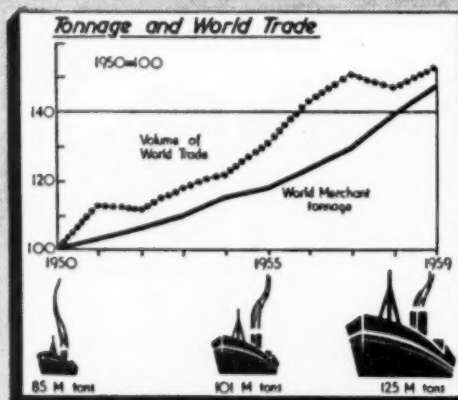
## EXCHANGE RESERVES



SOURCE: Federal Reserve Bulletin

After a record decrease of \$2.3 billions in 1958, the American gold stock fell by about half that amount last year.

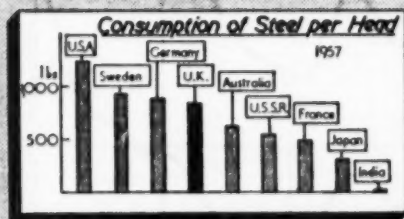
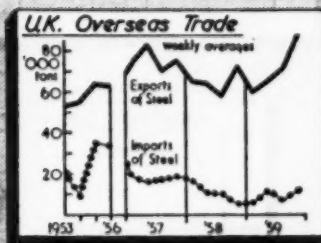
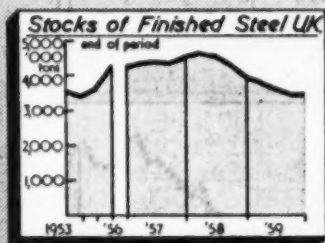
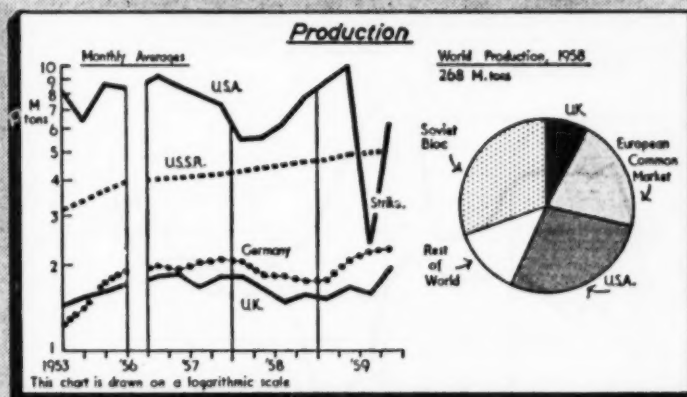
## SHIPPING



SOURCES: Chamber of Shipping  
Lloyd's Register of Shipping

While the volume of world trade in 1959 was only slightly higher than in 1957, world merchant tonnage had increased by 13 per cent. Freight rates picked up somewhat towards the end of last year, when there was also some decline in British tonnage laid up.

# STEEL

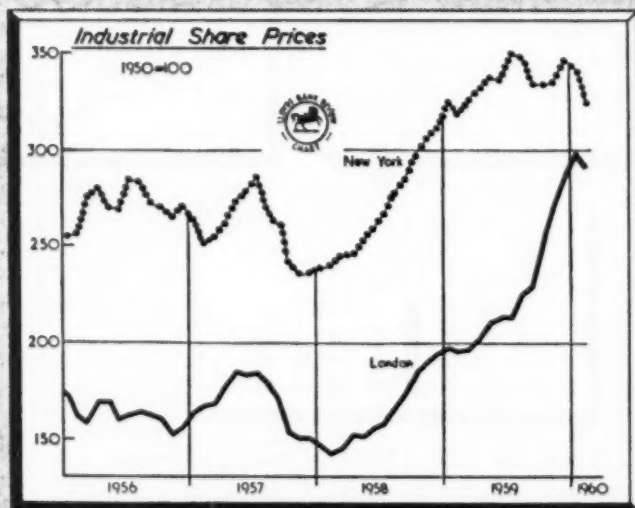
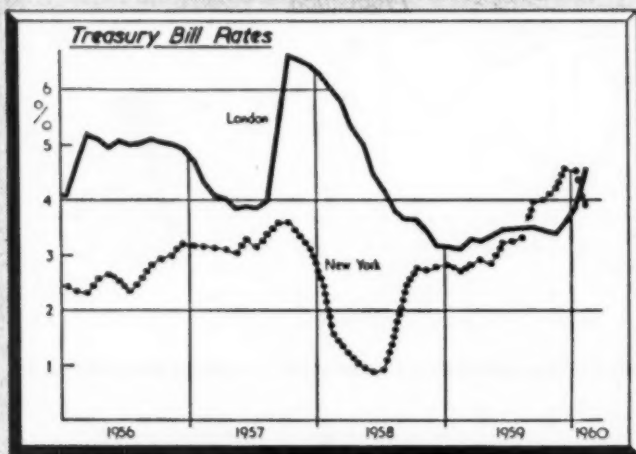


SOURCES: British Iron & Steel Federation  
U.N., O.E.E.C., Statistical Bulletins

Additional capacity in 1960 will raise the potential output of the U.K. steel industry to about 25½ m. tons. Actual production is expected to be about 24 m. tons, or 20 per cent. greater than last year.

## BILL RATES & SHARE PRICES

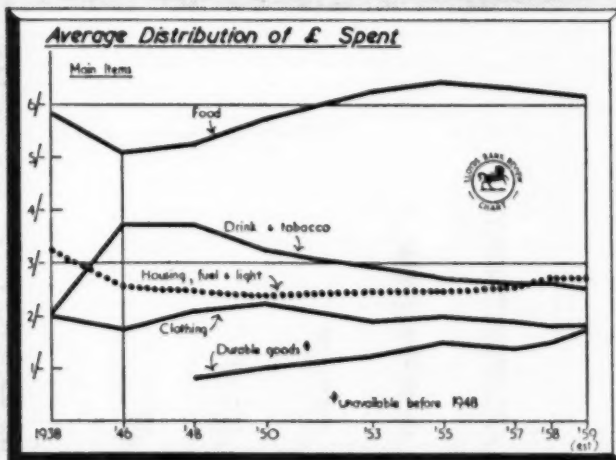
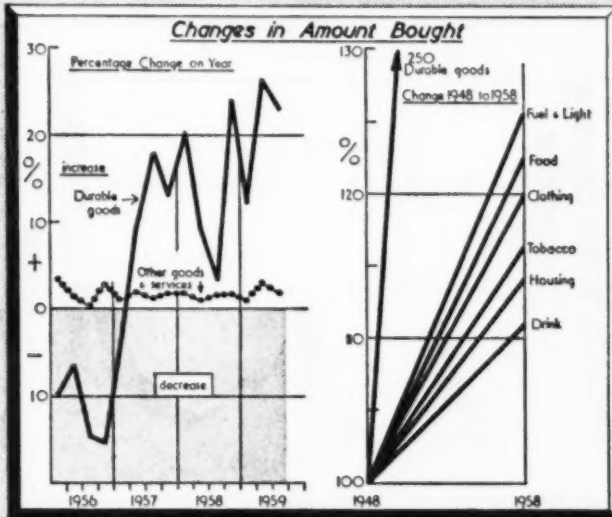
*London and New York Compared*



SOURCES: Financial Times  
Federal Reserve Bulletin

Following the increase in Bank Rate last January the Treasury bill rate in London is once more above the comparable New York rate. On the basis of the *Financial Times* index, industrial share prices in London have recently suffered some set-back, after a 50 per cent. spurt during 1959.

## PERSONAL EXPENDITURE

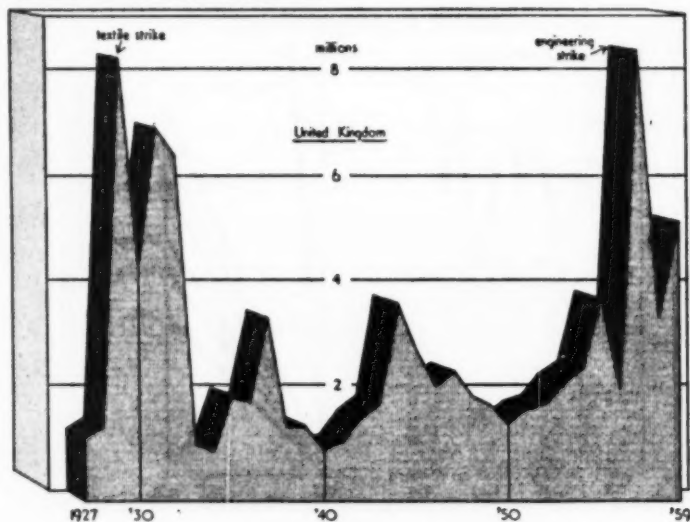


SOURCES: National Income Blue Books  
Monthly Digest of Statistics

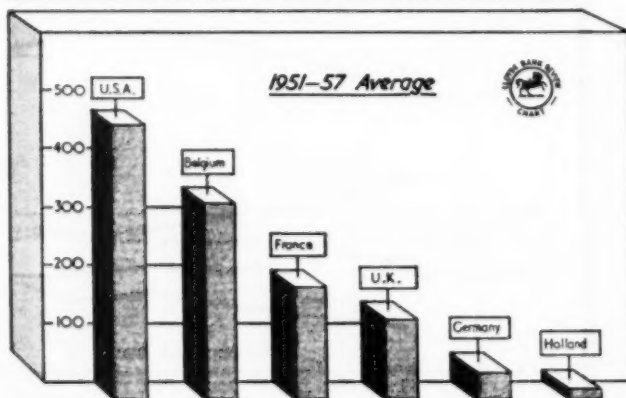
The dominant feature of recent trends in expenditure has been the sharp increase in purchases of durable goods: 23 per cent. more in the third quarter of 1959 than in the corresponding period of 1958. Expenditure on other goods and services, in contrast, has been rising at a rate of only about  $1\frac{1}{4}$  per cent. each quarter.

# STRIKES

Number of Working Days lost



Number of Working Days lost per Thousand Workers

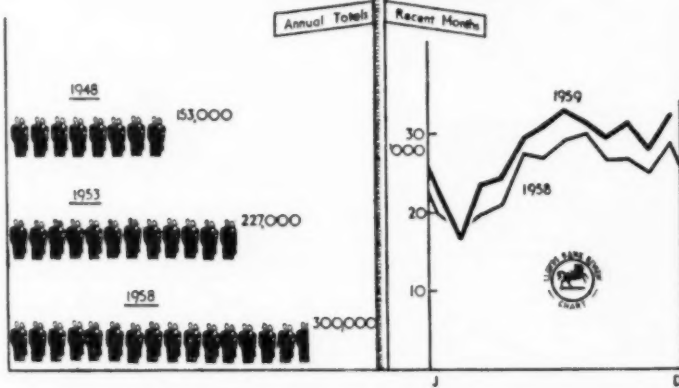


SOURCES: Ministry of Labour Gazette  
ILO and O.E.E.C. statistical bulletins

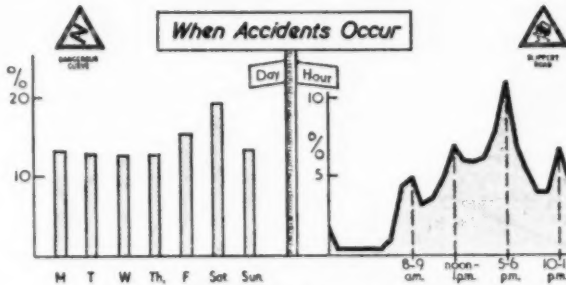
The number of working days lost through strikes have increased in recent years, compared with the earlier 1950's. In proportion to the size of the labour force, the British figure is less than a third of the American, but over twice that for Germany.

# ROAD CASUALTIES

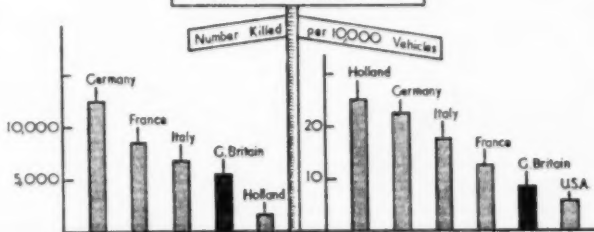
## Killed and Injured



## When Accidents Occur



## Fatal Accidents: 1957



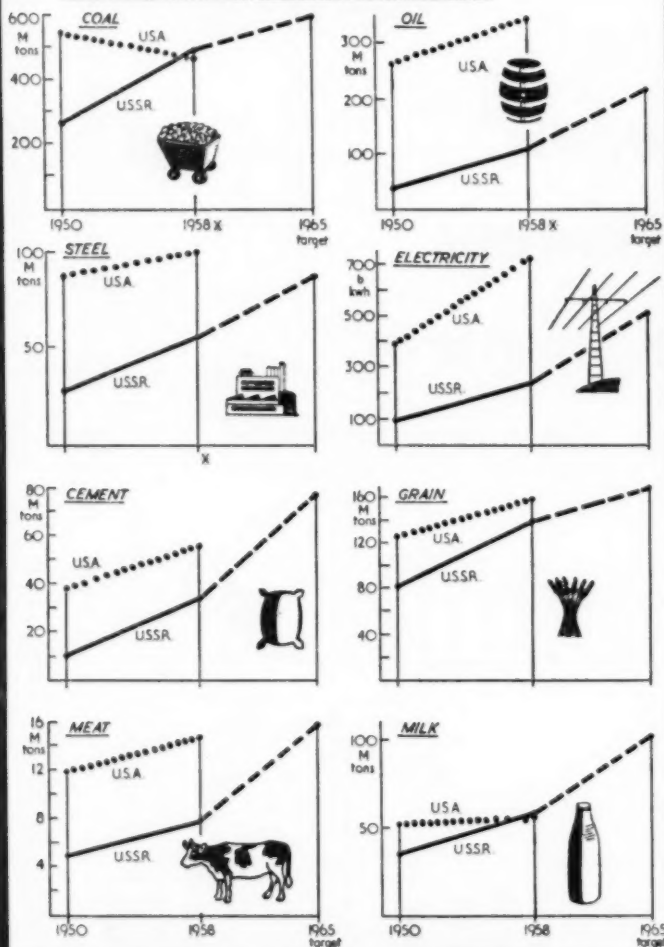
SOURCES: Monthly Digest of Statistics  
Road Traffic Accidents in Europe

Total road casualties last year exceeded 330,000, of whom 6,500 were killed. About one in five accidents occurs on a Saturday and one in ten between 5 and 6 in the evening.

# RUSSIAN 7-YEAR PLAN



## Production comparisons with U.S.A.



SOURCES: N.I.E.S.R. Review, Nov 1959 (Nov);  
U.S. Abstract of Statistics

\* 1957 figures for U.S.A., as 1958  
figures were lower due to the recession

If Russia were to achieve the planned increase of about 80 per cent. in industrial production by 1965 this would still leave output of some major products below present American levels. In others (e.g. cement and milk) increases to considerably above current U.S. figures are aimed at.

# The Investment Management Service of Lloyds Bank

**THE SERVICE** Lloyds Bank's Investment Management Service has been offered to customers and others for many years and is administered by experienced officials of the Executor and Trustee Department.

**THOSE TO WHOM THE SERVICE SHOULD APPEAL**

Broadly speaking, the service is designed to be of use to those who, through lack of time or business knowledge, ill-health, age or frequent absence abroad, find it difficult to give their investment affairs the regular and careful attention required in these times. It promises the application of a sound investment policy, allied to the routine care of the investments, but it is not intended for the speculator.

**HOW THE SERVICE WORKS** If you decide to make use of the service, the investments will be transferred into the control of the Bank. You will be asked to sign a simple letter of request, incorporating instructions to the Bank either to act at its discretion or else to refer to you before making any changes in the investments.

In formulating the investment policy, regard will be paid to your own personal circumstances and special needs and wishes; the investments will be kept under regular review in conjunction with a firm of stockbrokers whom you may nominate.

The Bank will deal with any notices received in respect of the investments, thus removing the danger of your overlooking the value of "rights" offers, allotment letters, etc., and the necessity of taking action within a certain time limit.

Each year the Bank will send you a statement giving full details of any dealings during the year.

Finally, the arrangement can be ended and the investments transferred back to you at any time.

*Our normal fee for this service is £2 a year for every £1,000 of securities placed in our charge.*

**HOW TO OBTAIN THE SERVICE** If you are interested, you will want more information than is given here. Preliminary details can be obtained from the Managers of any of the Bank's branches and, if necessary, arrangements can be made for you to see an official of the Bank's Executor and Trustee Department which administers the service at its area branches throughout the country.

**LLOYDS BANK LIMITED**



PRINTED BY  
MARDON, SON & HALL, LTD.,  
BRISTOL, ENGLAND.

